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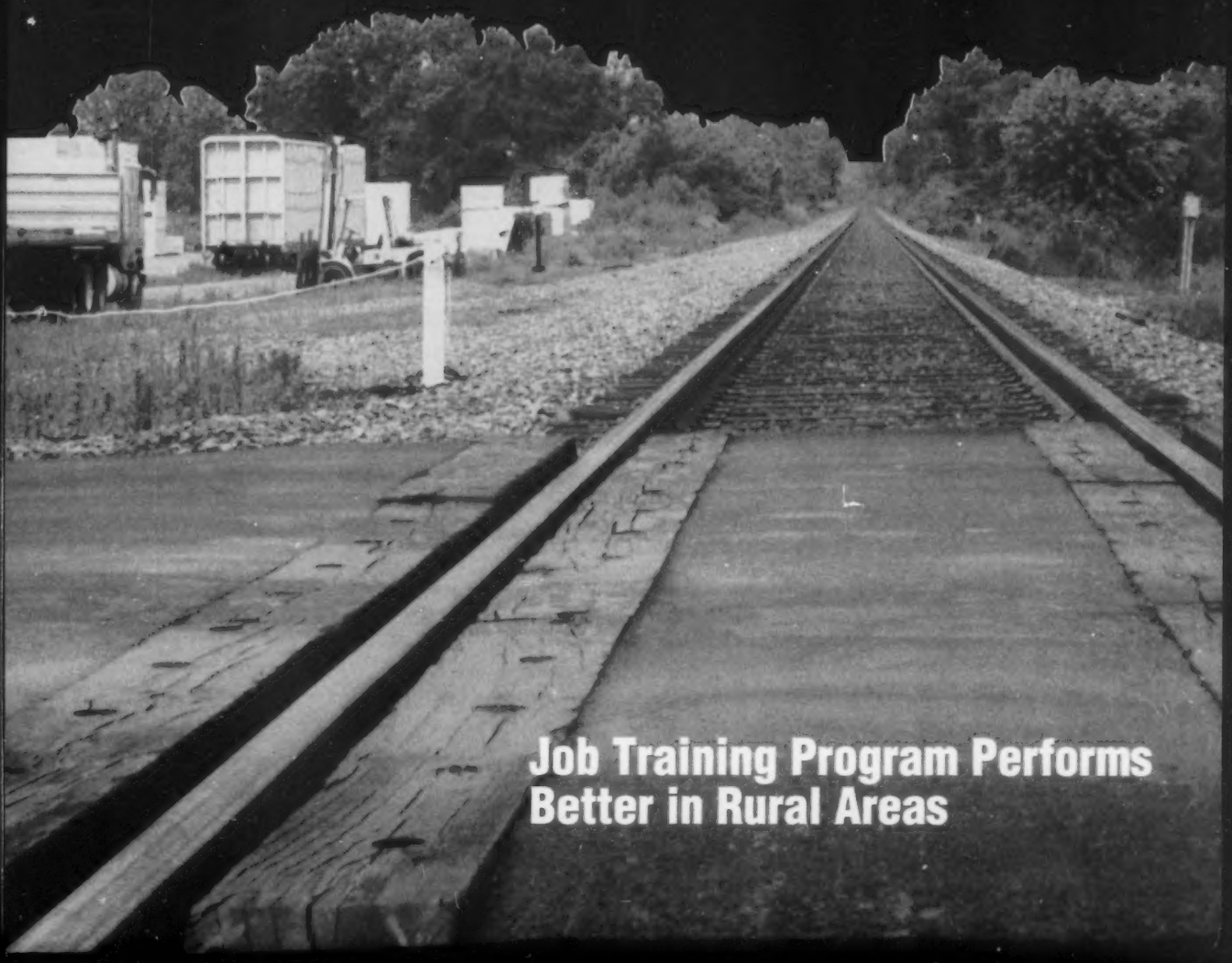

Job Training Program Performs Better in Rural Areas

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PERSPECTIVES

To what extent has the economic recovery begun to take hold? Early in 1992, many forecasters were projecting that the U.S. economy would make significant gains as the year progressed. However, the economy did not pick up until the second half of the year and early into 1993.

Real gross domestic product (GDP) grew only 1.9 percent in the first half of 1992, compared with 3.3 percent in the second half of the year. The real boost came in the fourth quarter, when real GDP rose at an annual rate of 4.8 percent, the highest rate since the fourth quarter of 1987. However, overall growth in 1992 was only 2.1 percent, considerably lower than in other early recovery periods.

"The general outlook for the economy is for moderate but steady growth," say economists Ralph Monaco and Jennifer Beattie of USDA's Economic Research Service. "Real GDP is expected to grow about 3 percent this year, which will help reduce the unemployment rate. Moreover, inflation should remain relatively low, and consumer prices are forecast to rise only about 3 percent."

The Nation's unemployment rate peaked for this recovery at 7.7 percent in June 1992, well after March 1991, the low point of the last recession. By January 1993, the rate had declined to 7.1 percent, the lowest rate in a year. In 1992, about 600,000 jobs were created, well below the average of roughly 2 million jobs added annually during the 1980's.

Low job growth is partly responsible for constrained growth in consumers' income, even as they increased their spending, especially in the second half of 1992. As a result, consumer saving slid from 5.3 percent in the second quarter to 4.5 percent in the fourth quarter.

Inflation remained comparatively low throughout 1992. Consumer prices rose 2.9 percent, the lowest rate since 1986. Food prices contributed to low overall consumer price inflation, rising only 1.5 percent, the smallest increase since 1976. Excluding food and energy, consumer prices climbed only 3.3 percent in 1992, the smallest increase in 20 years.

Along with relatively low inflation, interest rates fell in 1992, with some hitting record lows. Three-month Treasury bill rates averaged 3.5 percent, the lowest annual average since 1963. Yields on 30-year Treasury bonds averaged 7.7 percent in 1992 and dropped below 7 percent in February, the lowest rate since the U.S. Treasury began issuing such bonds in 1977.

"In 1993, inflation will likely remain low," the economists say. "Short-term interest rates may rise slightly, while long-term rates are forecast to stay flat or decline."

FARMLINE

AGRICULTURE...NATURAL RESOURCES...RURAL DEVELOPMENT
Practical economic intelligence from USDA's Economic Research Service

FEATURES

Job Training Program Performs Better in Rural Areas *Priscilla Glynn* 4

Conventional wisdom suggests that the sparsely settled population, generally higher unemployment and poverty levels, and less diversified economies of nonmetro areas would hinder the success of job training programs. But one program appears to be working better in nonmetro than in metro areas. Data from the Job Training Partnership Act's Title II-A program indicate that training outcomes, costs, and per capita availability of funds are more favorable in the typical nonmetro than in the typical metro program.

California, Texas, and Iowa Are Top States in Farm Receipts *Jack Harrison* 7

California led the Nation in total receipts for agricultural commodities in 1991, with $17.9 billion. Of the $167.3 billion in total national receipts from farm commodities for the year, livestock and related products accounted for 51.8 percent, and crops 48.2 percent. All but 14 States earned at least $1 billion worth of receipts from farm commodities.

Food and Tobacco Manufacturers' Profits Remain Strong *Priscilla Glynn* 12

Many businesses experienced financial difficulties during the economic slowdown of 1991. But the food and tobacco manufacturing sector performed better—by all profit measures—than any other industry in the U.S. economy except pharmaceuticals.

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This is your handy 2-page guide to production of major U.S. crops in 1992. It shows production levels for important feed grains, food grains, cotton, sugar, peanuts, and tobacco over the past 10 years.

Job Training Program Performs Better in Rural Areas

Despite a common perception that the success of Federal job training programs in nonmetropolitan areas is hampered by a variety of problems, ranging from higher unemployment rates and more narrowly specialized economies to less educated trainees, one such program appears to be working better in nonmetropolitan areas than in metropolitan areas.

"Recent data from the Job Training Partnership Act's Title II-A program, the principal Federal effort to enhance the employability of economically disadvantaged adults and youth, indicate that training results, costs, and per capita availability of funds are in general more favorable in the typical nonmetro program than in the typical metro program," says economist John Redman of USDA's Economic Research Service.

Program costs were lower and training outcomes more favorable in nonmetro areas.

How the Program Works

The Title II-A program was authorized in 1982 and provides funds in the form of block grants to the States, which administer the provisions of the Act. Persons eligible to participate in the program include:

- individuals who receive or are members of families that receive cash payments under a Federal, State, or local welfare program,
- food stamp recipients,
- individuals whose total family income for the 6 months prior to applying for the program was below the poverty level or less than 70 percent of an alternative poverty measure (the Bureau of Labor Statistics' "lower living standard" income level), whichever is higher,
- homeless persons,
- foster children receiving State or local funds, and
- low-income handicapped individuals.

In the program year studied (July 1987-June 1988), 70 percent of funds had to be spent on training, and 15 percent could be spent on support services (such as child care and transportation to and from training sites) for program participants. No more than 15 percent could be used for administrative costs. At least 40 percent of the funds allocated for training had to be spent on youth programs, and up to 10 percent could be spent on individuals who were not economically disadvantaged but who faced other barriers to employment, such as a handicap or criminal record.

The typical nonmetro Title II-A program is considerably smaller—in terms of total program cost and the number of persons who complete the program or leave for some other reason (called *terminees*)—than the typical metro program.

"Job training programs in nonmetro areas do, of course, face significant difficulties," Redman notes. "For example, the unemployment and poverty rates of nonmetro areas nationwide are higher than those of metro areas. Moreover, nonmetro populations are by their very nature more widely dispersed—and are therefore more difficult to reach than metro populations."

Despite these problems, Redman's analysis of the demographic and performance

Performance Measures for 1987 Year of Title II-A Job Training Program

	U.S.	*Metro*	*Nonmetro*
Noncost performance measures:			
All adult employment rate:	73.4%	72.8%	74.0%
Welfare adult employment rate:	62.8%	62.6%	64.1%
Youth positive termination rate:	81.0%	81.6%	79.8%
All adult average no. of weeks in program:	19	17	21
All adult average weekly earnings at followup (as % of local retail/wholesale sector)	0.86%	0.80%	0.96%
Cost measures:			
All adult average cost, per person entered employment	$2,944	$3,124	$2,947
Youth average cost, per positive termination	$2,414	$2,505	$2,244
Weekly average cost, per adult terminee	$131	$158	$111
All adult average cost, per job held at followup	$3,227	$3,452	$3,086

Source: U.S. Department of Labor.

information compiled by the U.S. Department of Labor for the 1987 program year brings into question the validity of a number of commonly held assumptions regarding the comparative effectiveness of metro/nonmetro employment and training programs.

How Performance Is Measured

In 1987, the Title II-A program used seven measures to monitor each area's performance:

- the percentage of all adult (aged 21 years and older) terminees who found unsubsidized employment,
- the all-adult program cost divided by all adult terminees who found unsubsidized employment,
- the average hourly wage received by all adult terminees immediately after completion of training,
- the percentage of welfare adults (adult terminees who were receiving cash welfare payments when they began training) who found unsubsidized employment,
- the percentage of youth terminees who found unsubsidized employment,
- the percentage of youth terminees who successfully completed training, either by finding unsubsidized employment or by completing a youth employability enhancement program, and
- the youth program cost divided by the number of youths who successfully completed the program.

A followup survey administered 13 weeks after participants had left the program provided these additional measures for all adult and welfare adult terminees: the percentage working either full- or part-time during the 13th week after leaving the program, the average weekly earnings of those working full- or part-time in the 13th week, and the average number of weeks all survey respondents had worked since leaving the program.

Some Surprising Results

"Given the more sparsely settled population, generally higher unemployment and poverty levels, and less diversified economies of nonmetro areas, conventional wisdom would suggest that comparable metro/nonmetro program results can be achieved only with higher expenditures in nonmetro programs," Redman says. "Yet the data for the 1987 program year show that program costs were lower in the typical nonmetro than in the typical metro program, and that nonmetro programs outperformed metro programs on most *noncost* measures."

For example, the average cost per adult terminee who found employment was $3,124 in metro programs, compared with only $2,947 in nonmetro programs—even though, on average, adults in nonmetro programs spent several more weeks in training than those in metro programs. The cost for each youth who successfully completed the program was $2,505 in metro programs, but only $2,244 in nonmetro programs.

Redman points out that the amount of money spent on several major categories of training costs, such as salaries for training and administrative personnel and on-the-job training subsidies, depends heavily on the local wage level. This, in part, accounts for the lower expenditure levels in nonmetro programs.

In addition, after 13 weeks of post-training employment, nonmetro adult terminees had considerably higher relative weekly earnings (their earnings compared with average retail and wholesale wage rates prevailing locally) than metro terminees—96 percent for nonmetro terminees compared with 80 percent for metro terminees. The percentage of nonmetro adult terminees who found employment was also slightly higher than that of their metro counterparts—74 percent compared with 72.8 percent.

Redman explains that although they face problems in carrying out job training programs, nonmetro programs do have some advantages over their metro counterparts. "For example, because nonmetro wages are generally lower than metro levels, programs in nonmetro areas may not have to spend nearly as much to provide a level of service comparable to that of programs in metro areas," he says. "Also, use of the unemployment rate for funding allocations

can produce, on a per capita basis, higher levels of nonmetro than metro funding when nonmetro economic performance significantly lags metro performance, as it often did in the last decade."

Limited Resources Can Be Overcome

Nevertheless, although the typical nonmetro program outperformed its metro counterpart in 1987, Redman cautions that there are instances when a nonmetro program's performance is compromised because it does not have the level or diversity of resources available to metro programs. "For example, nonmetro programs may lack specialized equipment essential to training in specific job categories, instructors who can teach particular skills in local demand, or information on metro job opportunities located outside the area but within commuting distance," he says.

However, these difficulties can be surmounted in a variety of ways. Nonmetro trainees could be bused to nearby metro facilities to receive instruction, since some Title II-A program funds can be spent on such services. Alternatively, necessary personnel residing in metro areas could be recruited to provide training in nonmetro areas, or mobile training facilities based in metro areas could be used in nonmetro areas on a rotating basis.

"The ability of a nonmetro program to avail itself of metro resources depends largely on its proximity to those resources," Redman says, "and programs serving much of the nonmetro population are close to metro areas."

About 50 percent of the nonmetro population live in counties adjacent to at least one metro area. Another 28 percent live in counties within 50 miles of a metro area. Nearly 80 percent of the Nation's nonmetro population thus have reasonably good access to metro areas.

"Moreover, many of the poorest nonmetro areas, which presumably have the greatest need for job training and placement assistance, are within commuting distance of metro areas," Redman notes. "Over 75 percent of nonmetro counties with persistent poverty are located within 50 miles of a metro area."

But Redman notes that a nonmetro program's proximity to a metro area cannot guarantee its residents access to the vital resources which their home counties may lack, since a nearby metro area may not have those resources either.

"But by maximizing the potential of new technologies, job training and placement assistance programs can provide additional opportunities for nonmetro participants," Redman says. "Long-distance learning can be achieved through telecommunications and computer-based instruction programs, and tie-ins to electronic regional job banks can help program participants find work." ■

Based on information provided by economist John Redman, Agriculture and Rural Economy Division, Economic Research Service.

Characteristics of Metro and Nonmetro Areas for 1987 Year Of Title II-A Job Training Program

	U.S.	*Metro*	*Nonmetro*
All adult:			
Average total program cost	$1,411,575	$1,605,681	$827,479
Average no. of terminees	724	801	439
Welfare adult:			
Average total program cost	NA	NA	NA
Average no. of terminees	210	258	121
Youth:			
Average total program cost	$1,052,453	$1,187,563	$566,493
Average no. of terminees	587	645	350
Yearly average earnings per job, all sectors	$18,167	$20,120	$15,950
Yearly average earnings per job, retail/wholesale	$12,489	$14,300	$10,600
Unemployment rate	7.4%	6.1%	9.3%
Families below poverty level (1980 Census data)	9.59%	8.00%	11.80%
Population density (1,000 persons/sq. mi.)	0.74	1.61	0.04

NA = Not available.

Source: U.S. Department of Labor.

California, Texas, and Iowa Are Top States in Farm Receipts

California was the leading State in total receipts for agricultural commodities in 1991 with $17.9 billion.

Texas ranked second with $12.1 billion and Iowa third with $10.2 billion. California accounted for 10.6 percent of the national total, and the top 10 States garnered 51.9 percent.

All but 14 States had at least $1 billion worth of receipts from farm commodities for the year. Alaska, with just $26.6 million, was in 50th place. Rhode Island was 49th and New Hampshire 48th.

California's top five commodities by value of receipts were dairy products, greenhouse and nursery products, cattle and calves, grapes, and cotton.

Nationally, the top 10 commodities were cattle and calves, dairy products, corn, hogs, soybeans, greenhouse and nursery products, broilers, wheat, cotton, and chicken eggs.

"A ranking by cash receipts of leading commodities conveys a significant amount of information about the production mix within a State," says economist Roger Strickland of USDA's Economic Research Service (ERS).

"Cash receipts are the major component of gross income in USDA's farm income accounts and reflect the market value of commodities from farms where they are produced within a calendar year," Strickland says.

"A ranking of States by cash receipts of a commodity or commodity group indicates the importance of the commodity to individual States and geographic regions," the economist adds.

Livestock and products account for nearly 52 percent of the value of commodities.

The top five commodities nationally remained the same in 1991 as they were in 1990. Greenhouse and nursery products, with a total value of $8.4 billion in 1991, moved up from seventh to sixth, switching places with broilers.

Twenty-two commodities accounted for at least $1 billion each in receipts nationwide in 1991. Nine commodities totaled at least $5 billion each.

Of the $167.3 billion total receipts from farm commodities in 1991, livestock and products accounted for 51.8 percent ($86.7 billion) and crops 48.2 percent ($80.6 billion). The $39.6 billion in receipts for cattle and calves amounted to 23.6 percent of the receipts for all commodities.

The top five States in cattle and calves were Texas, Nebraska, Kansas, Colorado, and Oklahoma. The leading dairy States were Wisconsin, California, New York, Pennsylvania, and Minnesota.

California was the leading State in receipts for greenhouse and nursery products, chicken eggs, hay, tomatoes, and grapes. Illinois led in corn and soybeans, Iowa in hogs, Arkansas in broilers and rice, Kansas in wheat, Texas in cotton and sorghum grain, North Carolina in tobacco and turkeys, Idaho in potatoes, Washington in apples, Florida in oranges and sugarcane, Georgia in peanuts, Minnesota in sugarbeets, and North Dakota in barley.

Cattle and calves were the leading commodity in 18 States: Arizona, Colorado, Idaho, Kansas, Missouri, Montana, Nebraska, Nevada, New Mexico, Oklahoma, Oregon, South Dakota, Tennessee, Texas, Utah, Virginia, West Virginia, and Wyoming.

Dairy products led the list of earners in California, Michigan, New Hampshire, New York, Pennsylvania, Vermont, and Wisconsin. Broilers were the top commodity in Alabama, Arkansas, Delaware, Georgia, and Maryland. Greenhouse and nursery products were Number 1 in Alaska, Connecticut, Massachusetts, New Jersey, and Rhode Island.

Other leading commodities were corn in Illinois, Indiana, and Minnesota; tobacco in Kentucky, North Carolina, and South Carolina; cotton in Louisiana and Mississippi; oranges in Florida; sugarcane in Hawaii; hogs in Iowa; potatoes in Maine; wheat in North Dakota; soybeans in Ohio; and apples in Washington. ■

Based on information provided by economist Roger Strickland, Agriculture and Rural Economy Division, Economic Research Service.

The information in this article is from ERS Statistical Bulletin 848, "Ranking of States and Commodities by Cash Receipts, 1991." The 96-page publication is priced at $11 and can be ordered by calling 1-800-999-6779 in the United States and Canada (other areas please call 703-834-0125), or by writing to ERS-NASS, 341 Victory Drive, Herndon, VA 22070.

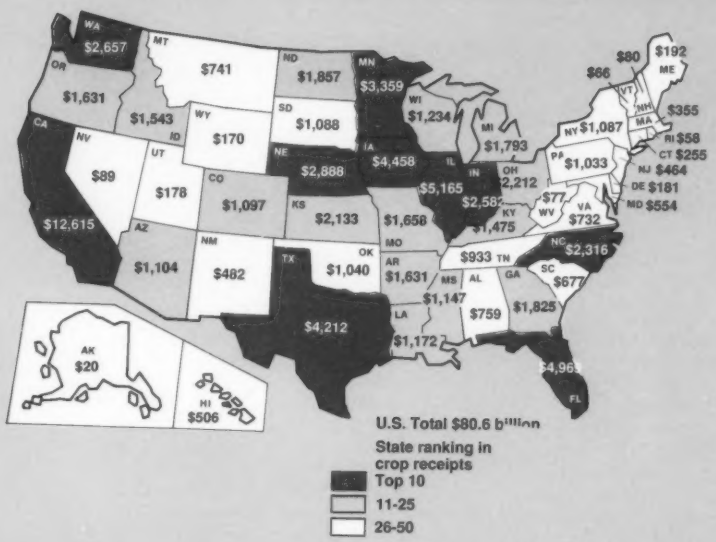
Leading Commodities for Cash Receipts in 1991

State	Total	1st		2nd		3rd	
			$ million				
Alabama	2,978	Broilers	1,148	Cattle/calves	646	Greenhouse	200
Alaska	27	Greenhouse	15	Dairy	3	Hay	2
Arizona	1,890	Cattle/calves	516	Cotton	405	Dairy	208
Arkansas	4,311	Broilers	1,370	Cattle/calves	520	Soybeans	503
California	17,887	Dairy	2,455	Greenhouse	1,954	Cattle/calves	1,682
Colorado	3,761	Cattle/calves	2,244	Corn	275	Wheat	207
Connecticut	463	Greenhouse	135	Chicken eggs	82	Dairy	71
Delaware	620	Broilers	392	Soybeans	45	Corn	37
Florida	6,141	Oranges	1,173	Greenhouse	998	Tomatoes	571
Georgia	3,978	Broilers	1,126	Peanuts	631	Chicken eggs	290
Hawaii	597	Cane sugar	198	Pineapples	108	Greenhouse	82
Idaho	2,616	Cattle/calves	667	Potatoes	493	Dairy	319
Illinois	7,509	Corn	2,681	Soybeans	1,958	Hogs	1,172
Indiana	4,475	Corn	1,237	Soybeans	958	Hogs	824
Iowa	10,179	Hogs	2,916	Corn	2,466	Cattle/calves	2,057
Kansas	6,935	Cattle/calves	4,272	Wheat	981	Corn	405
Kentucky	3,179	Tobacco	843	Cattle/calves	758	Horses/mules	466
Louisiana	1,793	Cotton	388	Cattle/calves	221	Sugarcane	192
Maine	445	Potatoes	109	Chicken eggs	86	Dairy	85
Maryland	1,332	Broilers	384	Greenhouse	197	Dairy	182
Massachusetts	476	Greenhouse	143	Cranberries	97	Dairy	65
Michigan	3,081	Dairy	643	Corn	393	Cattle/calves	285
Minnesota	6,936	Corn	1,216	Dairy	1,149	Soybeans	1,009
Mississippi	2,422	Cotton	685	Broilers	579	Cattle/calves	252
Missouri	3,861	Cattle/calves	874	Soybeans	730	Hogs	534
Montana	1,531	Cattle/calves	666	Wheat	406	Barley	156
Nebraska	8,821	Cattle/calves	4,783	Corn	1,754	Hogs	878
Nevada	276	Cattle/calves	141	Hay	48	Dairy	38
New Hampshire	143	Dairy	43	Greenhouse	33	Apples	11
New Jersey	660	Greenhouse	203	Dairy	52	Chicken eggs	34
New Mexico	1,501	Cattle/calves	752	Dairy	221	Hay	113
New York	2,868	Dairy	1,387	Greenhouse	347	Cattle/calves	208
North Carolina	4,924	Tobacco	1,055	Broilers	777	Hogs	659
North Dakota	2,556	Wheat	854	Cattle/calves	497	Barley	213
Ohio	3,893	Soybeans	767	Corn	761	Dairy	592
Oklahoma	3,808	Cattle/calves	2,226	Wheat	383	Greenhouse	273
Oregon	2,454	Cattle/calves	444	Greenhouse	358	Dairy	204
Pennsylvania	3,503	Dairy	1,347	Cattle/calves	448	Greenhouse	294
Rhode Island	71	Greenhouse	39	Dairy	5	Chicken eggs	4
South Carolina	1,225	Tobacco	191	Cattle/calves	135	Broilers	116
South Dakota	3,264	Cattle/calves	1,470	Hogs	397	Corn	297
Tennessee	1,978	Cattle/calves	485	Dairy	262	Tobacco	210
Texas	12,126	Cattle/calves	6,157	Cotton	1,572	Dairy	683
Utah	731	Cattle/calves	283	Dairy	149	Hay	55
Vermont	433	Dairy	311	Cattle/calves	45	Greenhouse	23
Virginia	2,095	Cattle/calves	412	Broilers	305	Dairy	269
Washington	3,947	Apples	800	Dairy	558	Cattle/calves	534
West Virginia	330	Cattle/calves	104	Broilers	55	Dairy	34
Wisconsin	5,449	Dairy	2,850	Cattle/calves	924	Corn	349
Wyoming	813	Cattle/calves	590	Sugarbeets	55	Hay	42

Cash Receipts from Farm Marketings: State Estimates for 1991

All figures in millions (000,000)

1991 Cash Receipts from Crops

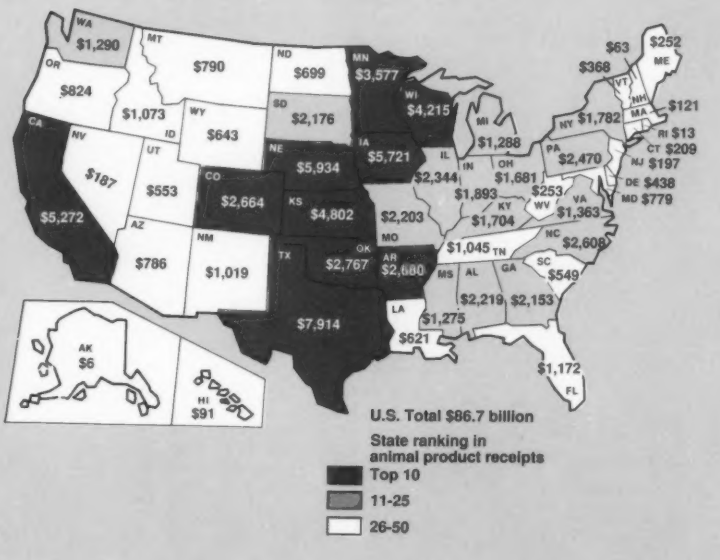


Top 10 States in Crop Receipts[1]

	1989	1990	1991
	$ million		
California	12,928	13,624	12,615
Illinois	4,727	5,338	5,165
Florida	5,022	4,483	4,969
Iowa	3,755	4,420	4,458
Texas	4,057	4,081	4,212
Minnesota	2,813	3,135	3,359
Nebraska	3,080	2,632	2,888
Washington	2,467	2,402	2,657
Indiana	2,462	2,871	2,582
North Carolina	2,082	2,268	2,316

[1]Includes receipts from commodities placed under Commodity Credit Corporation loans, minus value of redemptions.

1991 Cash Receipts from Livestock, Dairy, and Poultry

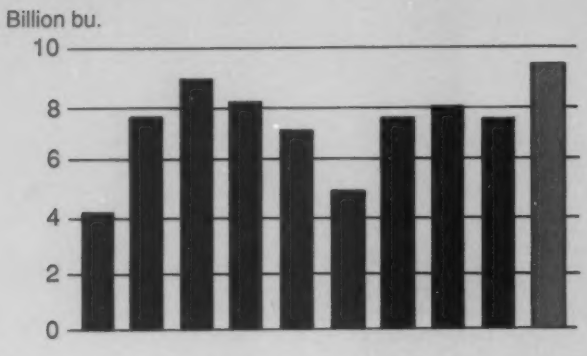


Top 10 States in Animal Product Receipts

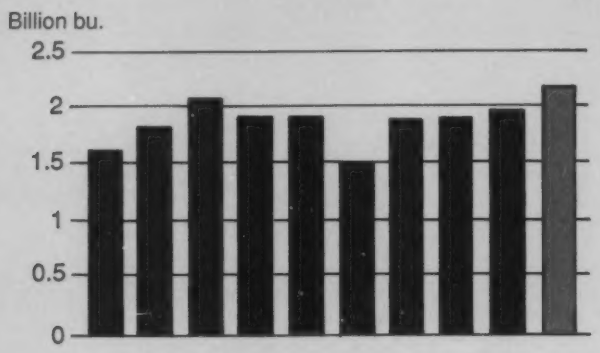
	1989	1990	1991
	$ million		
Texas	6,861	7,751	7,914
Nebraska	5,646	6,076	5,934
Iowa	5,293	5,862	5,721
California	5,193	5,533	5,272
Kansas	4,416	4,996	4,802
Wisconsin	4,350	4,573	4,215
Minnesota	3,693	3,749	3,577
Oklahoma	2,377	2,342	2,767
Arkansas	2,661	2,701	2,680
Colorado	2,649	3,073	2,664

The 1992 U.S. Harvest At a Glance

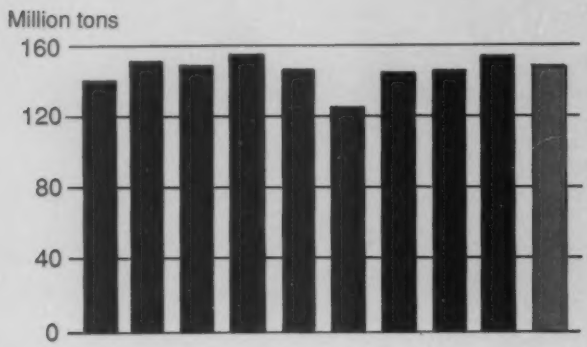
Corn for grain production surged 27 percent to a record 9.48 billion bushels from the year before . . .



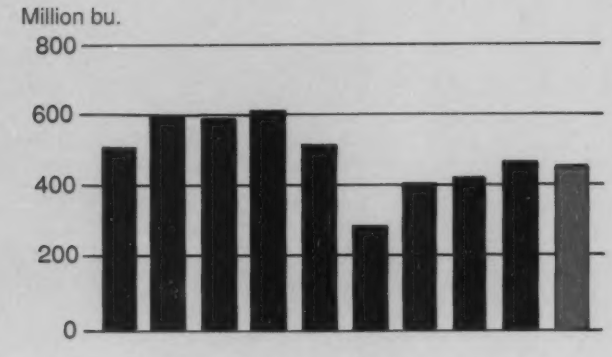
Soybean production rose 11 percent . . .



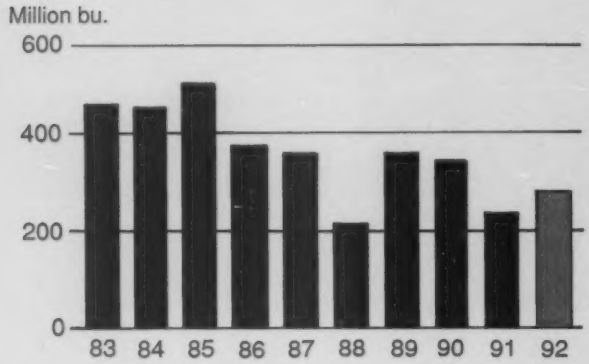
Hay production slipped 3 percent . . .



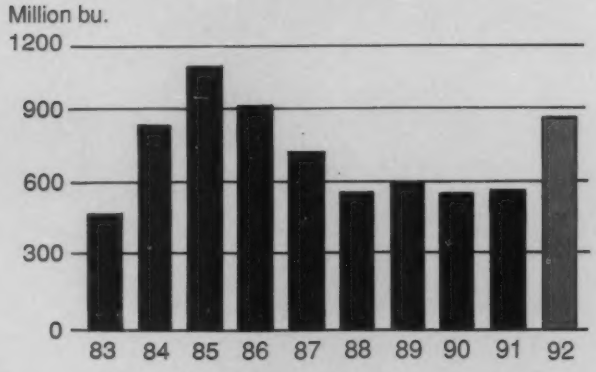
Barley production slipped 2 percent . . .



Oats production climbed 21 percent . . .

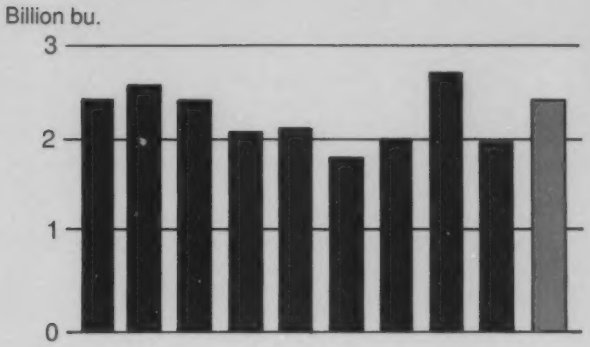


Sorghum for grain production soared 51 percent . . .

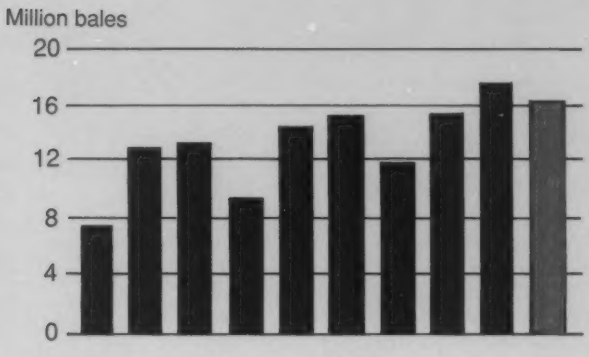


Source: *Crop Production, 1992 Summary,* National Agricultural Statistics Service, and *Sugar and Sweetener* situation and outlook reports, Economic Research Service.

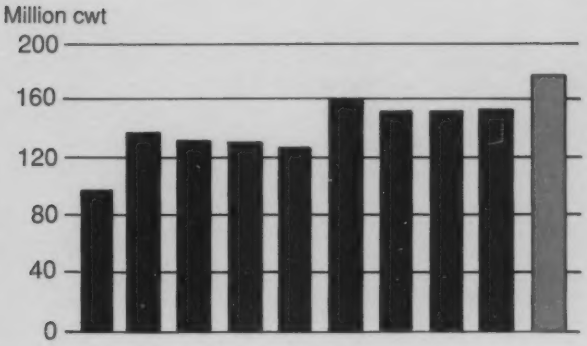
Wheat production jumped 24 percent . . .



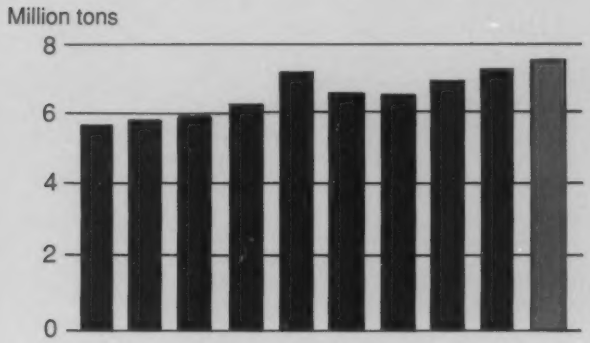
Cotton production fell 8 percent . . .



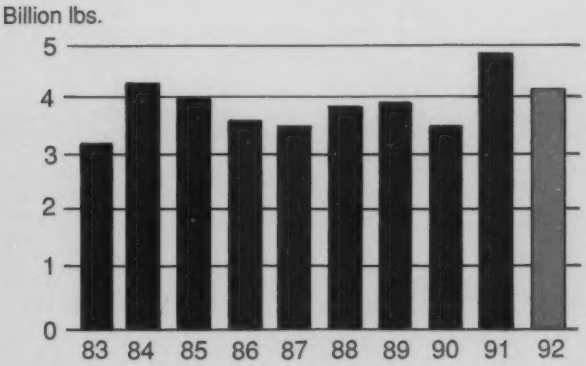
Rice production climbed 14 percent . . .



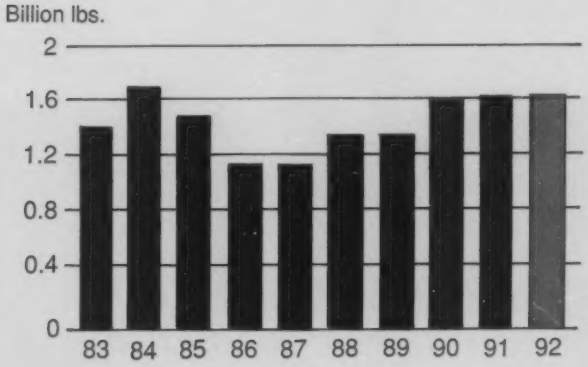
Sugar crop production rose 6 percent, and . . .



Peanut production fell 13 percent— but was still the third highest on record . . .



Tobacco production increased 1 percent

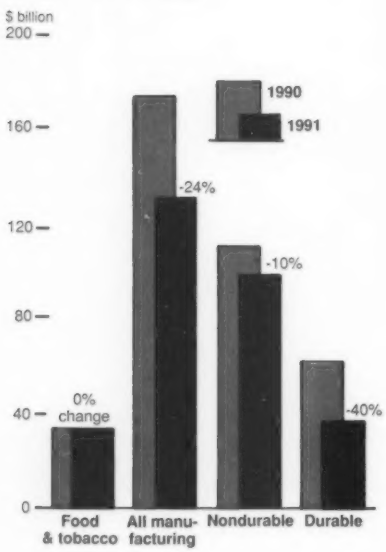


Food and Tobacco Manufacturers' Profits Remain Strong

U.S. food and tobacco manufacturing companies were profitable during the prosperous 1980's, both in terms of profit margins and in terms of returns on assets, sales, and stockholders' equity. But how well does the sector do during a period of economic stagnation?

"Despite the financial difficulties that beset many businesses during the economic slowdown that existed throughout 1991, the level of profitability of food and tobacco manufacturing companies stayed healthy," reports economist Anthony Gallo of USDA's Economic Research Service. Since the acquisition of RJR Nabisco, Inc. by Kohlberg, Kravis, Roberts, and Co. and the acquisition of Kraft, Inc. by Phillip Morris Companies, Inc., (both in 1989), the companies that produce about 70 percent of U.S. tobacco products also produce food items. Therefore, the manufacture of food and tobacco is now generally regarded as an amalgamated industry.

Manufacturers' Income from Domestic Operations



"Viewed from the supply side, some economic factors actually benefited the sector."

In 1991, U.S. real gross domestic product declined, total employment fell by more than 1 million persons, and unemployment rose to 6.6 percent. And the stagnation in the overall economy did affect the food and tobacco manufacturing sector. "Personal consumption expenditures, when adjusted for price increases, declined for most items, including food and tobacco products," Gallo says. "Food and tobacco manufacturing product shipments, which increased by 5.5 percent in 1990, rose only 1 percent in 1991, slowing volume growth."

But Gallo explains that, when viewed from the supply side, other economic factors actually benefited the sector. "Because it is international, highly leveraged, and labor intensive, the profitability of the U.S. food and tobacco manufacturing system is affected not only by such factors as per capita disposable income and consumer spending, but also by foreign exchange rates, interest rates, prices, and wages," he says. "In 1991, the producer price index for intermediate food and feeds dropped 2.2 percent, and interest rates and the value of the U.S. dollar declined. Wages rose only 2.4 percent, and average number of hours worked per week dipped slightly."

These factors helped to maintain the sector's profitability in 1991: by all profit measures, it did better than any other industry in the U.S. economy except pharmaceuticals.

Gallo explains that one of the primary reasons for the outstanding financial performance of food and tobacco firms is that tobacco products remain highly profitable. In 1991, for example, they accounted for about $32 billion in sales, or 8 percent of all food and tobacco manufacturing sales.

One profit measure—return on stockholders' equity—indicates how well a business performs on profit returns to its owners.

Food and tobacco manufacturers had a return of 17 cents for each dollar of owner capital in 1991, while all manufacturers averaged a return of just 6.4 cents. Pharmaceutical companies showed a return of 26 cents on the dollar.

Food and tobacco manufacturers' returns on sales were also strong—they earned roughly 5 cents per dollar of sales, compared with less than 2.5 cents for all manufacturers. Pharmaceutical firms' earnings averaged 15 cents per dollar of sales.

The food and tobacco manufacturing system has traditionally had the highest sales-to-assets ratio of any sector of the U.S. economy, and this trend continued through the economic slowdown. Each dollar in assets generated $1.28 in sales for food and tobacco manufacturers in 1991, compared with $1.02 for all manufacturers and 80 cents for pharmaceutical firms.

As a result, food and tobacco manufacturing firms reaped a 6.1-percent return on

assets, while all manufacturers averaged 2.6 percent. The pharmaceutical sector had a 13-percent return.

Despite slow sales, food and tobacco manufacturers' income from domestic operations, the core of their business, totaled $34 billion in 1991, the same as in the previous year. Tobacco's income from domestic operations amounted to $8.7 billion, roughly 25 percent of the sector total. (This measure excludes all nonoperating income such as rents, dividends, and interest, as well as nonoperating expenses.) All manufacturers, on the other hand, experienced a drop of 24 percent.

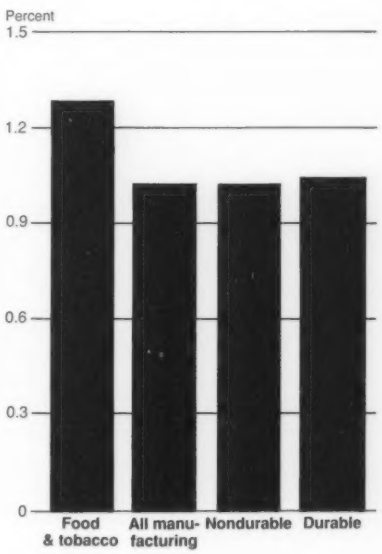
"Because of the heavy increase in debt during the late 1980's to finance leveraged buyouts, interest payments now constitute the major use of food and tobacco manufacturers' earnings," Gallo says. "Lower interest rates trimmed their interest expenses to $17.6 billion in 1991 from $20 billion the year before, although interest payments still made up 39 percent of their use of earnings."

The financial performance of the food and tobacco manufacturing sector, then, was not as much affected by the economic slowdown of 1991 as that of most other industries. Moreover, Gallo points out, the sector's performance in 1991 compares favorably with that of 1987-90, a period of growth for the U.S. economy.

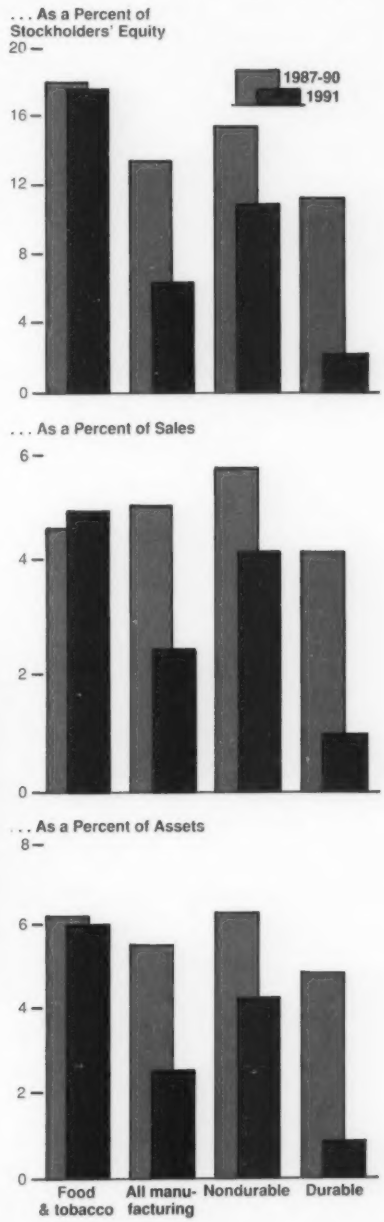
"Food and tobacco manufacturing firms' return on stockholders' equity and assets was only slightly lower in 1991 than in the earlier period," Gallo says. The sector's after-tax profits as a percent of equity slipped from 17.9 percent in 1987-90 to 17.6 percent in 1991, whereas that of all manufacturers dropped from 13.4 to 6.4 percent. Food and tobacco manufacturers' profits as a percent of assets dipped from 6.3 percent in 1987-90 to 6.1 percent in 1991, while that of all manufacturers fell from 5.6 to 2.6 percent. Food and tobacco firms' profits as a percent of sales climbed from 4.6 percent in 1987-90 to 4.9 percent in 1991, while that of all manufacturers fell from 5.0 to 2.5 percent. ■

Based on information provided by Anthony Gallo, Commodity Economics Division, Economic Research Service.

Manufacturers' Sales-to-Assets Ratio, 1991

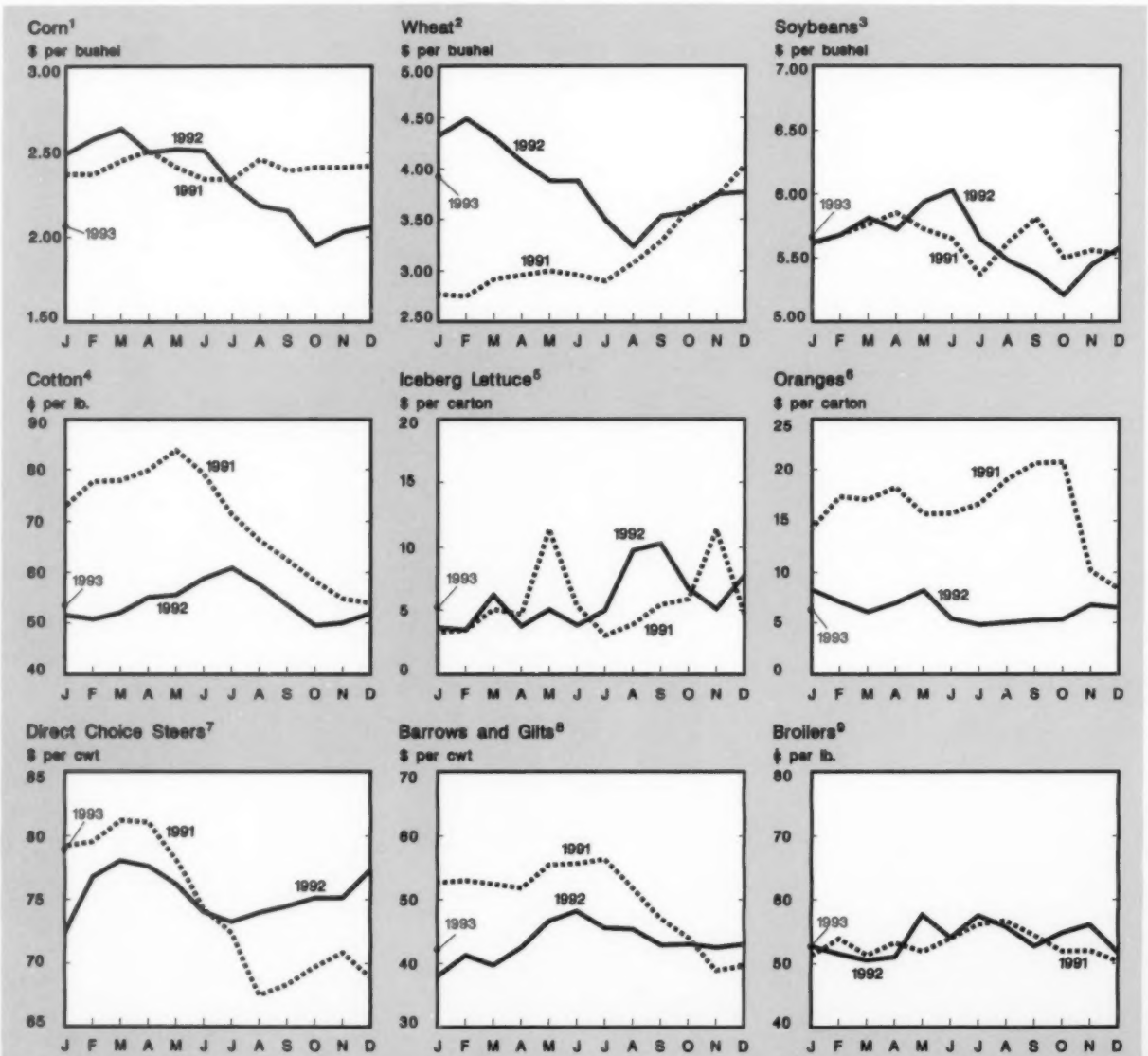


Manufacturers' After-Tax Profits . . .



Monthly Price Monitor

USDA's January 1993 inflation-adjusted index of farm prices, from the National Agricultural Statistics Service's Agricultural Prices report, was 0.7% above December 1992 and unchanged from a year earlier. Wholesale market prices follow. Corn increased 1¢ to $2.07 per bushel. Wheat climbed 16¢ to $3.93 per bushel. Soybeans increased by 9¢ to $5.67 per bushel. Cotton rose by 1.8¢ to 53.7¢ per pound. Iceberg lettuce continued its erratic price pattern, dropping $2.42 to $5.34 per carton. Oranges jumped 36¢ to $6.84 per carton. Direct choice steers rose $1.67 to $79.01 per hundredweight, their highest price since April 1991. Barrows and gilts slipped 57¢ to $42.43 per hundredweight. Broilers inched up 1.3¢ to 52.9¢ per pound.



[1]No. 2 yellow, Central Illinois. [2]No. 1 HRW, Kansas City. [3]No. 1 yellow, Central Illinois. [4]SLM 1-1/16", spot market price. [5]Standard carton 24's, California-Arizona. [6]Central California, Standard carton. [7]Nebraska. [8]Omaha. [9]Wholesale, New York. All prices shown are monthly averages.

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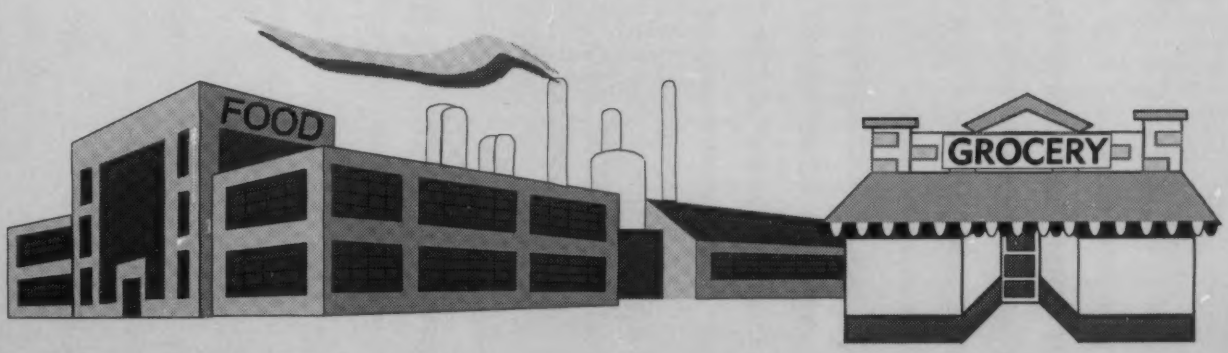

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